

WATERWORKS BOARD

FINANCIAL STATEMENTS
with Independent Auditors' Report thereon

For the Years Ended December 31, 2009 and 2008

WATERWORKS BOARD
FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Waterworks Board
Leavenworth, Kansas

We have audited the accompanying basic financial statements of the Waterworks Board as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Waterworks Board. Our responsibility is to express opinions on these basic financial statements based on our audits.

We conducted our audits in accordance with the Kansas Municipal Audit Guide and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks Board, as of December 31, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2-12, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Waterworks Board. The information on pages 28-30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Kramer & Associates CPAs, L.L.C.

Kramer & Associates CPAs, LLC
Leavenworth, Kansas
May 24, 2010

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis of the Waterworks Board's financial performance provides a narrative overview of the Board's financial activities for the fiscal year ended December 31, 2009. Please read it in conjunction with the accompanying financial statements.

HISTORY AND OVERVIEW

Early Waterworks System:

The City of Leavenworth and the Fort Leavenworth Water Company constructed the original municipal waterworks system in 1882. The system consisted of a water treatment plant (near the site of the current North Water Treatment Plant and next to Fort Leavenworth), 14 miles of transmission and water distribution lines consisting of cast iron pipe (CIP), and a five-million gallon water-storage reservoir constructed on the top of Pilot Knob. The water treatment plant included reciprocating pumps, a storage reservoir (now called the North Reservoir), and a nine million gallon settling basin. The Pilot Knob site was selected for reservoir storage because the elevation (about 1100 feet) would ensure adequate hydraulic pressure in the water transmission and distribution system.

In 1921, the City of Leavenworth purchased the waterworks system from Fort Leavenworth Company. From 1921 through 1937, the City operated the waterworks system under a cloud of financial controversy.

Formation of Waterworks Board and Water Department:

Dissatisfied with the City operation of the waterworks system, the citizens of Leavenworth voted in 1937 to establish a separate waterworks board and a water department that would function independently from city public services. The Waterworks Board and the Water Department operate today, as established in 1937. The citizens of Leavenworth intended for the Water Department:

- To be operated as a quasi-governmental business;
- To provide plentiful, high-quality water for municipal use;
- To operate and maintain the waterworks system in a responsible manner to ensure long-term reliability.

North Plant:

In 1938, the original water treatment plant was replaced with a four-million gallon per day (MGD) capacity water filtration plant and a high-service pumping station. The Pilot Knob Reservoir was also covered at this time. Two large settling basins from the original treatment plant were retained and are currently used today. The source of supply is the Missouri River. Since 1938, raw water has been diverted from the west bank of the Missouri River about two blocks south of the water treatment plant. Treated water from the plant is pumped into the Pilot Knob Reservoir, water transmission and distribution system.

Over the years since 1938, many capital improvements were made to the water treatment plant to improve water quality and capacity. In 1948, a lime-softening system was added to reduce water hardness. In 1955, the upper North clarifier was installed and an over-board discharge and pumping improvements were completed at the intake. In 1957, the North treatment chain was added to the process and the capacity was expanded

to 6 MGD. By 1961, the treatment plant pumping capacity was increased to 6 MGD. In 1970, a chlorine storage building was added. Beginning in 1978, the facility was called the North Plant and today is named the Kansteiner Water Treatment Plant after past Water Department Managers H. H. and B. K. Kansteiner. In 1983, the plant was shut off. A major upgrade to the plant occurred in 1989 and 1990 after which the plant was brought back on line. The biggest part of the upgrade was new mechanical and electrical equipment. Fluoride treatment was added in 2000 and by 2002 a new chlorine contact basin, clear well, and new SCADA system were added.

Today, the capacity of the North Plant is about 5.5 MGD with a single-day peak capacity of 6 MGD. Expansion of the plant beyond this level is not likely because of the plant configuration and limited space. At present, all settled sediment from the primary settling basin and all lime sludge (water and calcium carbonate) that is produced from the clarification and water-softening processes are discharged directly into the Missouri River. No NPDES permit is required for these discharges at the present time. Disinfection of the treated water is accomplished through the injection of chlorine gas and aqua-ammonia that together form chloramines that reduce the creation of undesirable disinfection by-products.

South Plant:

A second water treatment plant was constructed in 1978 to meet increasing water demands. Known as the South Plant, it is located off of Kansas Highway 5 in Lansing along a latitude nearly equal with Eisenhower Road. The water source for the South Plant is ground water pumped from nine shallow, large-diameter, high-capacity wells that are constructed in the Missouri River alluvial aquifer just east of the South Plant. Raw water pumped to the plant is aerated with a fan to reduce dissolved iron and manganese, softened, fluoridated, and disinfected in a manner similar to the North Plant. The capacity of the South Plant is about 5.5 MGD with a single-day peak capacity of 6.0 MGD. With future plant expansion, the ultimate capacity of the South Plant is about 12 MGD.

Unlike the North Plant, there is essentially no direct discharge of water from the South Plant back to the Missouri River. Lime sludge is stored temporarily in four basins near the plant and decant water accumulated at the basins is pumped back to the plant as makeup water in the treatment process. Periodically, the sludge is excavated from the basins and deposited onto nearby farm land as a soil amendment.

Administration and Operations:

A five-member Board elected by the citizens of Leavenworth oversees the operation of the Water Department and set policies for Water Department functions. Each Board member serves a four-year term with term limits. There are 34 employees in the Water Department including staff engaged in water treatment, water distribution, and administration.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts--management's discussion and analysis (this section), the basic financial statements, and additional information.

The Board operates as a *proprietary fund*; it operates like a business enterprise.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *additional information* that further explains and supports the information in the financial statements.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Financial Statements:

The financial statements report information about the Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The Governmental Accounting Standards Board (GASB) issued an accounting standard referred to as GASB Number 34, *Basic Financial Statements--and Management's Discussion and Analysis-- for State and Local Governments*. GASB No. 34, effective fiscal year 2004, established financial reporting standards for state and local governments, including states, cities and special purpose governments such as school districts and public utilities. This standard has minor impacts on the financial reporting and accounting historically performed by the Waterworks Board. A GASB No. 34 change to financial statements requires the title of the basic Balance Sheet to change to the Statement of Net Assets. The format of the information changed from a list of Assets, Liabilities and Equity to a listing of the Total Assets less Total Liabilities which then arrives at the Total Net Assets of the Board. The category of Equity changes to Net Assets. However, it retains the same categorization of balances.

The first two tables (Tables 1 and 2) report the Board's net assets and how they have changed. Net assets--the difference between the Board's assets and liabilities--is one way to measure the Board's financial health or *position*.

* Over time, increases or decreases in the Board's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

* To assess the overall health of the Board one needs to consider additional nonfinancial factors such as changes in the populations of the areas the Board services.

As mentioned above, the Board has one category of fund, a proprietary fund, and all of the Board's services are included here. Fees for services finance most of these activities.

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

Net assets:

Net assets may serve over time as a useful indicator of an entity's financial position. The assets of the Board exceeded its liabilities as of December 31, 2009 by \$35,692,883, increasing the net assets of the board by 2.89% or \$1,004,080 as a result of this year's operations. Of this amount, \$12,306,316 (unrestricted net assets) may be used to meet the entity's ongoing obligations to patrons and vendors, to perform daily operations, and to make capital improvements.

A significant portion of the Board's net assets, 65.44% reflects its investment in capital assets (e.g. buildings and plants, distribution system, equipment and vehicles, furniture and fixtures). The Board uses these capital assets to provide services to its patrons; consequently, these assets are not available for future spending.

Table 1
Waterworks Board
Condensed Statement of Net Asset

	Proprietary Activities		Total Percentage Change
	2008	2009	2008-2009
Current and other assets	\$ 13,574,213	\$ 14,078,524	3.72%
Capital assets	26,924,901	26,230,229	-2.58%
Total assets	40,499,114	40,308,753	-0.47%
Current liabilities	1,939,200	1,888,916	-2.59%
Long-term liabilities	3,871,111	2,726,954	-29.56%
Total liabilities	5,810,311	4,615,870	-20.56%
Net assets:			
Invested in capital assets	22,866,769	23,359,118	2.15%
Unrestricted	11,822,034	12,333,765	4.33%
Total net assets	\$ 34,688,803	\$ 35,692,883	2.89%

Changes in assets:

The Waterworks Board's total assets decreased \$190,361 or .47%. The overall decrease occurred through decreases in investments of \$836,987, inventory of \$101,920, net capital assets of \$694,672, and other assets of \$85,599. Increases incurred in cash of \$1,450,396, accrued interest receivable of \$46,821, prepaid expenses of \$27,008, and accounts receivable of \$4,592.

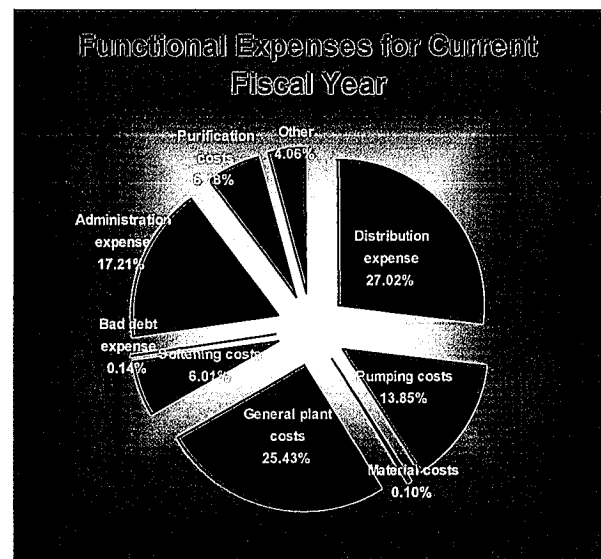
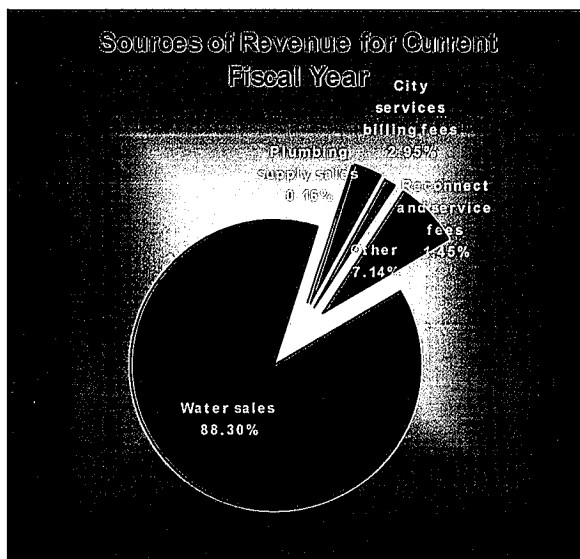
Changes in liabilities:

The Board's total liabilities decreased \$1,194,441, or 20.56%. Total current liabilities decreased by \$50,284, which was caused mostly by decreases in the current portion of long-term debt of \$42,864, accrued sludge removal of \$70,377, accrued interest on loan of \$19,240, accrued interest on meter deposits of \$7,747 and accrued employee benefits of \$368. In addition, total current liabilities included increases in accounts payable of \$58,610, accrued expenses of \$31,132, and terminated service fees of \$500. Total long-term liabilities, which is comprised mainly of the Kansas Department of Health and Environment Loan which was used to complete the plant upgrades in 2003 and 2004, decreased \$1,144,157.

Changes in net assets:

As noted above, the Board's net assets increased \$1,004,080 as a result of changes incurred in the Board's revenues and expenses. The Board's total year to year operating revenues increased by 1.41%. Approximately 95% of the Board's operating revenue came from water sales. The remaining 5% is comprised mainly of reconnect and service fees, plumbing and supply sales, and service billing fees to the City of Leavenworth.

All revenues and costs are related to the one proprietary activity (water production and distribution).



The Board received sufficient revenue during the year ended December 31, 2009 to sustain its operations and increase its net assets. See Table 2.

Table 2
Waterworks Board
Changes in Unrestricted Net Assets

	Proprietary Funds		Total Percentage Change
	2008	2009	2008-2009
Revenues:			
City services billing	\$ 173,931	\$ 182,225	4.77%
Water sales	5,360,368	5,450,658	1.68%
Reconnect and service fees	87,496	89,336	2.10%
Plumbing supply sales	30,356	9,829	-67.62%
Non-operating	574,299	440,636	-23.27%
Total revenues	6,226,450	6,172,684	-0.86%
Expenses:			
Production	2,018,624	2,151,210	6.57%
Distribution and administration	1,780,873	1,851,148	3.95%
Depreciation	1,147,322	1,201,711	4.74%
Non-operating	295,168	169,285	-42.65%
Total expenses	5,241,987	5,373,354	2.51%
Net income	\$ 984,463	\$ 799,330	-18.81%

Total revenues:

Total operating revenues for the year increased \$79,897, or 1.41%. A large part of this was due to a increase in water sales of \$90,290, or 1.68%.

Costs of Production:

The Board's costs of production increased \$132,586 or 6.57%. The categories that had a major impact were pumping and general plant costs. The increase in pumping costs totaled \$81,074, or 16.32%, and general plant costs increased \$79,507, or 8.10%.

Total Distribution and Administration expenses:

Distribution cost increased \$73,679 or 6.99%. Administration cost decreased \$5,058 or .70%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets:

As of December 31, 2009, the Board had \$26,230,229 in capital assets, including buildings and plants, distribution system, and furniture and fixtures. This amount represents an decrease from the prior year of \$694,672, net of accumulated depreciation.

During 2009, the Board invested a total of \$758,886 in capital additions and improvements:

North Plant	\$	17,945
South Plant	\$	66,563
Distribution center	\$	4,021
Distribution system	\$	535,972
Pumping	\$	16,721
Trucks	\$	4,252
Tools & equipment	\$	62,951
Office & storage building	\$	18,927
Wells	\$	27,139
Computer system	\$	4,395

Patron contributions totaled \$204,750 for meter upgrades, new services, main extensions, and system development fees.

Long-term debt:

The Waterworks Board borrowed a total of \$6,972,442 from the Kansas Public Water Supply Loan Fund, a division of the Kansas Department of Health and Environment (KDHE). The Waterworks Board borrowed \$1,722,442 in 2003 and an additional \$5,250,000 in 2004. The Board had no debt prior to 2003. Principal payments paid in 2009 equaled \$1,187,021, reducing the debt to \$2,871,111.

ECONOMIC FACTORS AND AREAS OF CONCERN

Economy Recession and Slow Recovery

A major economic factor of concern is the local economy and its impact on water demand and customers ability to pay for water. The slowdown of development in Leavenworth County has also reduced opportunities for organic growth and new water sales. A silver lining is that the local Leavenworth economy is somewhat better than other communities because of the economic contribution from Fort Leavenworth. Some economists are saying the national recession hit bottom late in 2009 and the nation is progressing forward with a very gradual recovery. Others are predicting in the next several months double-dip recession, rising taxes, and/or much higher inflation.

Low Interest Earnings

Since late 2008, the recession reduced interest earnings significantly. In 2009, the interest rate on investments dropped to between zero and one percent. Water Department interest earnings in 2010 and 2011 are forecast to be about \$300,000 less than in 2008. The low interest rates are not expected to last beyond the next year to two. For this reason, our strategy should be to pursue short-term investments, while increasing other revenue and reducing operating costs to make up for the difference. As an option, the Water Department should also consider a partial pay-down of the outstanding loan to the State of Kansas, which has a current balance of \$2,871,111.

Increased Water Treatment Costs

Water treatment expenses are constantly increasing due to higher costs for labor, energy, chemicals, and materials. These expenses are closely tied to the cost of petroleum, energy production, and government mandates.

Unfunded Federal Mandates

Unfunded federal mandates could dramatically increase our operating costs. These mandates, coming in the form of new laws and regulations, include the following:

- **American Clean Energy and Security Act of 2009 (HR 24540).** Also known as the Cap and Trade Bill, this legislation promises to require the reduction of carbon dioxide emissions and a tax on energy consumption. Enactment of this bill could more than double water treatment costs from the manufacturing and transportation of treatment chemicals to the direct consumption of electrical energy derived from coal-fired power plants. These costs will have to be passed onto our customers.
- **Emerging Contaminants.** The Water Department is required to sample water in the distribution system for emerging contaminants. Future treatment to remove or reduce these contaminants from the water supply may be required by new regulations. However, the necessary treatment technologies and associated costs are not yet known.
- **Atrazine Removal.** The EPA is studying herbicides such as Atrazine as endocrine blockers and possible carcinogens. The Water Department anticipates more rigorous monitoring requirements for Atrazine, a new regulation that lowers the maximum contamination level (MCL) for the herbicide, and new treatment requirements to remove Atrazine from the water supply. The associated costs will have to be passed on to our customers.
- **Disinfection Requirement (HR-2868 and HR-3258).** These bills would require the Water Department to use sodium hypochlorite instead of chlorine gas. Such a requirement would likely double or even triple the Water Department's operational disinfection costs plus the capital costs to retrofit the existing gas disinfection system. The costs will have to be passed on to our customers.

- *Discharge of Lime Residuals.* KDHE/EPA approval to discharge lime residuals back to the Missouri River is a constant concern. However, recent Missouri and EPA approval of the discharge of lime residuals into the Missouri River at St Louis by Missouri-American Water Company is cause for optimism.

OPPORTUNITIES

Additional Revenue

Locally, the Board of Public Utilities (BPU) of Wyandotte County (the Water Department's biggest competitor) recently announced a rate increase of at least 7 percent per year over the next five years beginning in June 2010. With careful planning and positioning, the Water Department is poised to take advantage of the increasing BPU rates to significantly increase its market share. Potential new water customers include:

- Suburban Water, Inc. (with spillover into other water districts in south Leavenworth County)
- Lan-Del Water District (through increased water demand because of BPU rate increase)
- RWD-12 (through increased water demand from organic growth)
- Platte County, Missouri water districts (new customer)
- USP (potential new prison facility in Leavenworth)

The cost of water treatment and distribution decreases on a per unit basis as potable water projection increases. Therefore, increasing water sales generates more revenue that can be invested in capital improvements. However, increasing water demand may require certain water treatment plant upgrades and/or expansion to ensure that the new water sales can be fully met during periods of plant maintenance and unforeseen circumstances. Water distribution system modeling will be necessary. Analysis may be necessary to quantify the water treatment needs. The construction of a water transmission line over or under the Missouri River to Platte County, Missouri may also present special engineering challenges.

The Water Department provides wastewater treatment and solid waste invoicing services for the City of Leavenworth. However, over the last 22 years the Water Department has been subsidizing the City's proportionate share of the invoicing costs. Currently, this subsidy is about \$60,000 per year. A new invoicing agreement needs to be negotiated with the City.

Lower Operating Costs

- *Radio-Read Meters.* Radio-read meters have been installed in about 60% of the City of Leavenworth. By the end of 2011, 2000 new radio read meters will be installed, reducing the cost of meter reading and invoicing. As the metering system becomes fully automated, some administrative staff may be able to take on new roles in terms of customer service and administration. Staff training in computer skills will be necessary. A degree of staff reduction may occur through normal attrition.

- **Billing and Payment System Automation.** The Water Department should develop over time an automated billing and payment system. Such a system could simplify cash handling and income accounting requirements and reduce associated labor costs. As with automated meter reading, some administrative staff may be able to take on new roles in terms of customer service and administration. Some staff training in computer skills will be necessary. A degree of staff reduction may occur through normal attrition.
- **Water Treatment Automation.** The Water Department could reduce water treatment costs through automation of the treatment process, particularly at the North Plant which is operated for base loading. The Water Department should seek to eliminate a full labor shift, which will require a rigorous upgrade of the SCADA systems at both treatment plants. Staff training in SCADA computer skills will be necessary. A degree of staff reduction may occur through normal attrition. A security access gate will need to be installed at each plant along with upgraded fencing.
- **Reduced Power Costs.** Energy usage is a major operating cost for both water treatment plants. The Water Department is investigating feasible opportunities to reduce the cost of energy, including the use of variable frequency drives or soft starts for the South Plant high-service pumps, adjustment of the electrical rate structure, and use of alternative sources of energy.
- **Lime Sludge Disposal.** The Water Department is investigating opportunities to reduce lime sludge disposal costs at the South Plant including onsite disposal in trenches and/or discharge into the Missouri River.
- **GIS System.** The Water Department is developing a GIS system to improve the efficiency and long-range planning of the water-distribution system. The GIS system will also be used to develop a distribution system model and may be used in the future to help automate customer service and inventory accounting.

Other cost factors and areas of concern are summarized below.

Water Treatment:

- **Night-shift manpower** - the night shift at each treatment plant is manned by a single person. For safety, security, and operations there should be at least two people on each shift. Additional staff will increase production costs.
- **Ventilation System** - Better ventilation at the river intake is needed for the VFD system. Current poor ventilation precludes other VFD installations at the river intake pumping station.
- **Surface drainage** - Poor drainage control from the National Guard Armory onto North Plant property is causing unnecessary flooding, sedimentation, and erosion. This problem needs to be solved.
- **North Plant Pumps** - The high-service pumps (No. 1 and No. 2) at the North Plant should be upgraded to 4 MGD.

Water Distribution and Administration:

- **Security** - Fencing and a security camera system should be installed at the administration office and shop area.
- **Inventory** - The inventory of fire hydrants and piping materials in storage at the Water Department should be reduced significantly.
- **Main breaks** - Repair and replacement of the aging water transmission and distribution infrastructure will continue to be a major expense.

General Discussion:

Average water production has ranged between 4.3 and 4.8 million gallons per day since 1988, the first full year of water sales to the U.S. Penitentiary. The flat trend in water production and sales (gallons) means the 12-million gallons per day treatment capacity is underutilized. Fixed costs at the two plants account for 70% of their operating costs, thereby minimizing the economy of scale.

The flat water sales trend reflects the stagnant population growth and few new businesses with significant water demands in the City of Leavenworth during the same period. In fact, the Corrections Corporation of America, on K-5 Highway, which began operations in Leavenworth in 1992, is the only new customer with a significant water demand since Hallmark Cards began operations in Leavenworth in 1968. The greatest potential for organic growth is in southern Leavenworth County and Platte County, Missouri.

Much of the water-distribution system in the City is old, substandard, and deteriorated by corrosion. Ten percent of the 180 mile system is 105 to 125 years old, and another 25% is 55 to 80 years old. Forty-five miles of these old mains are substandard two-inch and four-inch sizes. Frequent, costly breaks occur due to corrosion and other factors. Many sections of main in the City must to be replaced. Where warranted and cost-effective, pipe liners should be installed.

Many old valves need to be replaced because they no longer operate properly. Valve replacement work must continue into the future to make up for low installation and low replacement rates in the past. Valve exercising should improve to prolong the life of existing valves. Regular valve exercising also ensures their reliability when shutdowns, flushing, and other distribution maintenance and improvement projects are done.

STRATEGY

The Board remains committed to providing quality drinking water at economical rates. Moderate rate increases should continue. The above concerns of a flat sales trend, costly water treatment regulations, an aging distribution system, and high loan costs are being addressed through a strategy of selling more water.

To sell more water in the future, the Board developed plans in 2004 and 2005 to install a large water main into south Leavenworth County. The six miles of new 24" and 16" water mains will cost over \$3 million. However, the project should pay for itself over a long-term period (20 to 30 years).

Selling more water will help utilize the treatment plants' excess capacities and give better economy of scale throughout the production, distribution and administrative areas of the Water Department. Selling more water also will help to fund future capital improvements, especially the large water mains, pump stations and a second reservoir which will be needed to provide water in areas outside our current service area.

The first 1.5 miles of this 6-mile project was completed in 2006. The engineering studies, plan preparations, soil borings, and easement acquisitions for the full six miles were completed at an approximate cost of \$300,000. The installation cost (labor and materials) for the first 1.5 miles was about \$800,000, which was considerably less than the \$1 million estimated cost. Though the plans are ready for the next 4.5 miles of the project, the Board does not plan to install additional water mains going south into the County until new agreements for additional water purchases are reached with the water districts in southern Leavenworth County.

In addition to cost containment measures, the Water Department has been successful in maintaining a sound financial base with very moderate water rate increases for the past six years - an annual average increase of about 2%. These low rate increases can not go on indefinitely, though, if the water sales trend remains flat. Rising costs in both daily operations (all areas to include personnel, maintenance, energy, insurance, etc.) and in necessary, prudent capital improvements will erode the sound financial base without comparable increases in revenues.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives and spends. If you have any questions about this report or need additional financial information, contact the Chair of the Waterworks Board or the Board's Manager of Collections and Accounts, 601 Cherokee, Leavenworth, Kansas 66048.

WATERWORKS BOARD
STATEMENTS OF NET ASSETS
December 31,

	2009	2008
ASSETS		
Current assets:		
Cash	\$ 2,195,933	\$ 745,537
Investments	10,120,589	10,957,576
Accounts receivable	660,101	655,509
Accrued interest receivable	170,499	123,678
Inventory	768,644	870,564
Prepaid expenses	111,502	84,494
Total current assets	<u>14,027,268</u>	<u>13,437,358</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>26,230,229</u>	<u>26,924,901</u>
Total noncurrent assets	<u>26,230,229</u>	<u>26,924,901</u>
Other assets:		
Other receivables	4,230	86,307
Loan costs, net of accumulated amortization	<u>47,026</u>	<u>50,548</u>
Total other assets	<u>51,256</u>	<u>136,855</u>
Total assets	<u>40,308,753</u>	<u>40,499,114</u>

The accompanying notes are an integral
part of the financial statements.

WATERWORKS BOARD
STATEMENTS OF NET ASSETS
December 31,

	2009	2008
LIABILITIES		
Current liabilities:		
Accounts payable	360,048	301,438
Current portion of long-term debt	144,157	187,021
Accrued expenses	191,383	160,251
Accrued employee benefits	386,659	387,027
Meter deposits	434,043	433,973
Accrued interest on meter deposits	77,238	84,985
Accrued sludge removal	240,352	310,729
Accrued interest on loan	46,536	65,776
Terminated service fees	8,500	8,000
Total current liabilities	<u>1,888,916</u>	<u>1,939,200</u>
Long-term liabilities:		
Loan payable - Kansas Department of Health and Environment	<u>2,726,954</u>	<u>3,871,111</u>
Total long-term liabilities	<u>2,726,954</u>	<u>3,871,111</u>
Total liabilities	<u>4,615,870</u>	<u>5,810,311</u>
NET ASSETS		
Invested in capital assets, net related debt	23,359,118	22,866,769
Unrestricted - undesignated	12,306,316	11,789,916
Unrestricted - designated	<u>27,449</u>	<u>32,118</u>
Total net assets	<u>\$ 35,692,883</u>	<u>\$ 34,688,803</u>

The accompanying notes are an integral
part of the financial statements.

WATERWORKS BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the years ended December 31,

	2009	2008
Revenues:		
City services billing fees	\$ 182,225	\$ 173,931
Water sales	5,450,658	5,360,368
Reconnect and service fees	89,336	87,496
Plumbing supply sales	9,829	30,356
Total revenues	<u>5,732,048</u>	<u>5,652,151</u>
Costs of production:		
Pumping	577,945	496,871
Purification	257,996	238,605
Softening	250,596	295,804
General plant	1,060,667	981,160
Material	4,006	6,184
Total costs of production	<u>2,151,210</u>	<u>2,018,624</u>
Operating margin	<u>3,580,838</u>	<u>3,633,527</u>
Operating expenses:		
Bad debt	5,897	4,243
Distribution	1,127,300	1,053,621
Administration	717,951	723,009
Depreciation and amortization	1,201,711	1,147,322
Total operating expenses	<u>3,052,859</u>	<u>2,928,195</u>
Operating income (loss)	<u>527,979</u>	<u>705,332</u>
Non-operating revenue (expense):		
Income from investments	414,067	543,351
Landel project cost	-	(74,039)
Miscellaneous expense	(27,789)	(22,987)
Rent income	26,569	25,801
Interest on bonded debt	(136,820)	(183,483)
Interest on meter deposits	(4,676)	(14,659)
Gain (loss) on asset disposals	-	5,147
Total non-operating revenue (expense)	<u>271,351</u>	<u>279,131</u>
Net income	799,330	984,463
Patron capital contributions	204,750	278,286
Change in net assets	1,004,080	1,262,749
Net assets - beginning of year	<u>34,688,803</u>	<u>33,426,054</u>
Net assets - end of year	<u>\$ 35,692,883</u>	<u>\$ 34,688,803</u>

The accompanying notes are an integral
part of the financial statements.

WATERWORKS BOARD
STATEMENTS OF CHANGES IN PATRON CONTRIBUTIONS AND RETAINED EARNINGS
For the years ended December 31, 2009 and 2008

	Patron Contributions	Other Contribution FEMA	Retained Earnings	Total Net Assets
Balance at December 31, 2007	\$ 5,800,438	\$ 1,060,232	\$ 26,565,384	\$ 33,426,054
Contributions in aid of construction	278,286	—	—	278,286
Net earnings	—	—	984,463	984,463
Balance at December 31, 2008	6,078,724	1,060,232	27,549,847	34,688,803
Contributions in aid of construction	204,750	—	—	204,750
Net earnings	—	—	799,330	799,330
Balance at December 31, 2009	<u>\$ 6,283,474</u>	<u>\$ 1,060,232</u>	<u>\$ 28,349,177</u>	<u>\$ 35,692,883</u>

The accompanying notes are an integral
part of the financial statements.

WATERWORKS BOARD
STATEMENTS OF CASH FLOWS
For the years ended December 31,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from customers	\$ 5,809,533	\$ 5,544,192
Cash paid to employees	(2,016,638)	(2,010,699)
Cash paid to suppliers	<u>(1,885,344)</u>	<u>(1,881,969)</u>
Net cash provided by (used in) operating activities	<u>1,907,551</u>	<u>1,651,524</u>
Cash flows from capital related financing activities:		
Proceeds from the sale of assets	—	5,600
Purchase of capital assets	(503,517)	(1,199,697)
Patron contributions	204,750	278,286
Principal payments on notes payable	(1,187,021)	(1,224,298)
Interest paid on notes payable	(168,483)	(211,970)
Other receipts (payments)	<u>(7,117)</u>	<u>(75,468)</u>
Net cash provided by (used in) capital related financing activities	<u>(1,661,388)</u>	<u>(2,427,547)</u>
Cash flows from investing activities:		
Net activity of investments	836,987	319,811
Interest received	<u>367,246</u>	<u>640,192</u>
Net cash provided by (used in) investing activities	<u>1,204,233</u>	<u>960,003</u>
Net increase (decrease) in cash	1,450,396	183,980
Cash balance at beginning of year	<u>745,537</u>	<u>561,557</u>
Cash balance at end of year	<u>\$ 2,195,933</u>	<u>\$ 745,537</u>

The accompanying notes are an integral
part of the financial statements.

WATERWORKS BOARD
STATEMENTS OF CASH FLOWS
For the years ended December 31,

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$ 527,979	\$ 705,332
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,201,711	1,147,322
Bad debt expense	5,897	4,243
(Increase) decrease in:		
Accounts receivable	(4,592)	(25,882)
Inventory	101,920	(63,324)
Prepaid expenses	(27,008)	(23,962)
Other receivables	82,077	(82,077)
Increase (decrease) in:		
Accounts payable	58,610	10,261
Accrued expenses	31,132	23,173
Accrued employee benefits	(368)	5,524
Meter deposits	70	26,367
Accrued sludge removal	(70,377)	(68,953)
Terminated service fees	500	(6,500)
Total adjustments	<u>1,379,572</u>	<u>946,192</u>
Net cash provided by (used in) operating activities	<u>\$ 1,907,551</u>	<u>\$ 1,651,524</u>

The accompanying notes are an integral
part of the financial statements.

WATERWORKS BOARD
Notes to Financial Statements
December 31, 2009 and 2008

1. Summary of significant accounting policies

a. Reporting entity

The Waterworks Board, as provided in Kansas Statutes Annotated 13-2414 through 13-2428, has full control of the municipal water plant of Leavenworth, Kansas. The Board is composed of five members, each elected to serve for a period of four years. In case of a vacancy, the remaining members shall appoint a successor to serve until the next ensuing city election (K.S.A. 13-2416). By resolution of the board, officers are to be elected from its membership at the first meeting in May of each year.

The same statutes establish the positions of Manager of Production and Distribution and Manager of Collection and Accounts. Persons in those positions serve at the direction of the board and manage the Waterworks daily operations. The board has authorization to appoint other positions such as Engineer or Operations Manager to supplement positions established by statutes.

b. Basis of presentation and basis of accounting

Basis of presentation:

The following fund type comprises the financial activities of the Waterworks Board for the years ended December 31, 2009 and 2008.

Proprietary fund category:

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The Waterworks Board has one type of proprietary fund:

Enterprise fund: Used to account for any activity in which a fee is charged to an external user for goods or services. However, they must be used to account for activities (a) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (b) when laws or regulations require that the activity's cost of providing services, including capital costs, such as depreciation or debt service, be recovered with fees and charges (not taxes), or (c) the pricing policies of the activity establish fees and charges designed to recover its costs. Such operations are financed and operated in a manner similar to private businesses and are intended to be self-supporting through charges to users.

1. Summary of significant accounting policies

b. Basis of presentation and basis of accounting (continued)

Basis of accounting:

The Waterworks Board has established a system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The proprietary fund financial statements are reported using the total economic resources measurement focus and the accrual basis of accounting.

The Board has elected to apply all applicable pronouncements of the Financial Accounting Standards Board (FASB) in accounting and reporting for enterprise activities issued on or before November 30, 1989, unless these pronouncements conflict with applicable GASB pronouncements. No pronouncements of the FASB issued after November 30, 1989 have been adopted.

c. Accounts receivable

The Waterworks Board adopted a policy to write-off directly all accounts that are nine months overdue. With the current computer capability, in management's opinion, direct write-offs are an accurate method of determining the loss due to bad debts. Management considers all remaining accounts receivable to be collectible.

d. Compensated absences liabilities

The Board's policy regarding sick pay is to grant to full-time employees sick leave at the rate of 8 hours per month with no maximum limitation on accumulation. Upon retirement or death, employees will be paid for one-third of their unused sick leave.

All full-time employees are granted 8 hours of vacation pay per month from their first year through their fifth year of service. Beginning with an employee's sixth year of full-time service, 10 hours of vacation pay are earned each month. There is a 200 hour maximum accumulation at the end of any year, with 100 percent vesting upon an employee's retirement or death.

The liability on December 31, 2009 and 2008 for accumulated sick and vacation pay which amounted to \$386,659 and \$387,027, respectively, is classified in the financial statements as accrued employee benefits.

e. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Summary of significant accounting policies (continued)

f. Investments and cash flows

Investments in money market instruments, including certificates of deposit, are recorded at cost plus any accrued interest.

For the purposes of the statement of cash flows, the Waterworks Board considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

g. Inventory

Inventory is valued at the lower of average cost or market. Inventory consisted of materials and supplies at year-end.

2. Budgets

The Waterworks Board is not subject to statutory budget requirements. The Waterworks Board is not legally required to establish budgeting accounts; however, for monitoring purposes, the Board utilizes operating budgets for operations control and compliance with debt service requirements.

3. Capital assets

Purchased capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed capital assets are reported at estimated fair value at the time received.

Depreciation methods and estimated useful lives of capital assets reported in the proprietary funds are as follows:

	Depreciation method	Estimated useful life
Buildings and plants	Straight-line	10-100 years
Water distribution system	Straight-line	10-100 years
Wells	Straight-line	20-50 years
Tools and equipment	Straight-line	5-15 years
Office furniture and equipment	Straight-line	3-25 years
Trucks	Straight-line	3-5 years
Computer system	Straight-line	3-5 years

4. Defined benefit pension plan

Plan description. The Waterworks Board, Leavenworth, Kansas, contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

4. Defined benefit pension plan (continued)

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4.0% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414 (h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates of KPERS employers. The average employer rates established for calendar years 2009 and 2008 are 6.54% and 5.93%, respectively.

The Waterworks Board, Leavenworth, Kansas, employer contributions to KPERS for the years ending December 31, 2009, 2008, and 2007 were \$89,972, \$91,523, and \$80,016, respectively, equal to the required contributions for each year.

5. Cash and investments

At December 31, 2009, the Board had the following investments and maturities, including certificates of deposit:

Investment Type	Fair Value	Investment Maturities in Years	
		Less than 1	1 - 5
Certificates of deposit:			
First National Bank	\$ 554,059	\$ 554,059	\$ —
Mutual Savings Association	1,100,160	1,100,160	—
Citizens Savings & Loan Association	1,521,303	1,521,303	—
Commerce Bank, N.A.	1,000,000	1,000,000	—
Country Club Bank	3,334,932	3,334,932	—
State Investment Pool	2,610,135	2,610,135	—
Total	\$ 10,120,589	\$ 10,120,589	\$ —

K.S.A. 9-1401 establishes the depositories which may be used by the Waterworks Board. The statute requires banks eligible to hold the Board's funds have a main or branch bank in the county in which the Board is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Board has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Board's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Board has no investment policy that would further limit its investment choices. The rating of the Board's investments is noted below.

6. Cash and investments (continued)

Concentration of credit risk. State statutes place no limit on the amount the Board may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Board's allocation of investments as of December 31, 2009, is as follows:

Investment Type	Rating	Percentage
Certificates of deposit:		
First National Bank	Not Available	5.5%
Mutual Savings Association	Not Available	10.9%
Citizens Savings & Loan Association	Not Available	15.0%
Commerce Bank, N.A.	Not Available	9.9%
Country Club Bank	Not Available	33.0%
State Investment Pool	S&P AAf/S1+	109.9%

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. State statutes require the Board's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2009.

At December 31, 2009, the Board's carrying amount of deposits was \$12,316,522 and the bank balance was \$12,734,704. The bank balance was held by five banks resulting in a concentration of credit risk. Of the bank balance, \$1,500,000 was covered by the federal depository insurance and the remaining balance was collateralized with securities held by the pledging financial institutions' agents in the Board's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

At December 31, 2009, the Board had invested \$2,610,135 in the State's municipal investment pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. No more than ten percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

7. Compliance with Kansas statute

Management is aware of no statutory violations for the period under audit.

8. Accrued sludge removal expense

Under the Clean Water Act of 1972, the Waterworks Board is prohibited from discharging lime sludge directly into the Missouri River without a permit. Lime sludge from the treatment of raw water at the south plant is deposited into lagoons until it can be removed economically. The Waterworks Board currently has four lagoons and under normal operating conditions, it takes approximately 15 months to fill one lagoon. At year-end, two of the four lagoons were full and one of the two remaining lagoons was approximately 10% full.

To provide for these costs and charge current operations, the Board has established a liability called Accrued Sludge Removal. Currently, the Board is accruing \$10,000 monthly into this liability. The Board believes this amount is reasonable for future sludge removal costs.

9. Patrons contributions

Contributions in aid to construction were not capitalized prior to the year ended April 30, 1975. It was the opinion of management that the amounts by which the financial statements might change, if these items were included, were not material to the financial statements.

10. Sewer charges

The Waterworks Board, under agreement with the City of Leavenworth, Kansas, bills and collects sewer and trash pick-up charges from water customers for the City. A fee is charged to the City for such service which is calculated on an annual basis and collected over the course of the year.

12. Insurance coverage

The Board reviews insurance coverage annually to determine that insurance policies in force are appropriate, and written with insurance companies authorized to transact business in Kansas. The Board has insurance for property, fire, and theft coverage.

13. Fidelity bonds

Fidelity bonds of elective and appointive officials were in effect on December 31, 2009 and 2008. These bonds meet statutory requirements and were approved by the Board.

14. Property and equipment transactions

	Costs		
	Balance	Additions	Disposals
	December 31, 2008		
			Balance December 31, 2009
Real estate & easements	\$ 541,115	\$ —	\$ 541,115
North Plant	4,939,583	17,945	4,957,528
South Plant	5,958,307	66,563	6,024,870
Distribution center	565,705	4,021	569,726
Distributions system	18,331,657	535,972	18,867,629
Softening equipment	762,690	—	762,690
Purification	5,577,203	—	5,577,203
Pumping	97,388	16,721	114,109
Trucks	263,081	4,252	267,333
Tools & equipment	576,892	62,951	639,843
Office furniture & equipment	158,552	—	158,552
Office & storage building	515,582	18,927	534,509
Wells	1,559,295	27,139	1,586,434
Computer system	1,054,719	4,395	1,059,114
Pilot Knob Cottage	28,996	—	28,996
Booster station	143,746	—	143,746
Other assets	7,493	—	7,493
Operational asset total	41,082,004	758,886	41,840,890
Construction in progress	261,470	—	255,368
Total costs	\$ 41,343,474	\$ 758,886	\$ 41,846,992
Accumulated Depreciation			
	Balance	Additions	Disposals
	December 31, 2008		
			Balance December 31, 2009
Real estate & easements	\$ —	\$ —	\$ —
North Plant	2,235,392	226,396	2,461,788
South Plant	3,207,327	161,878	3,369,205
Distribution center	372,457	24,803	397,260
Distributions system	3,448,665	242,532	3,691,197
Softening equipment	576,310	21,250	597,560
Purification	1,458,135	278,358	1,736,493
Pumping	30,848	9,648	40,496
Trucks	160,974	19,952	180,926
Tools & equipment	478,867	25,188	504,055
Office furniture & equipment	154,247	1,234	155,481
Office & storage building	321,990	24,851	346,841
Wells	970,265	55,581	1,025,846
Computer system	851,301	97,495	948,796
Pilot Knob Cottage	27,261	344	27,605
Booster station	124,534	8,680	133,214
Total accumulated depreciation	\$ 14,418,573	\$ 1,198,190	\$ 15,616,763

14. Property and equipment transactions (continued)

	Costs		
	Balance	Additions	Disposals
	December 31, 2007		
			Balance December 31, 2008
Real estate & easements	\$ 541,115	\$ —	\$ 541,115
North Plant	4,767,073	172,510	4,939,583
South Plant	5,931,637	26,670	5,958,307
Distribution center	507,111	58,594	565,705
Distributions system	17,782,816	549,283	18,331,657
Softening equipment	762,690	—	762,690
Purification	5,577,203	—	5,577,203
Pumping	97,388	—	97,388
Trucks	231,087	74,130	263,081
Tools & equipment	545,840	31,052	576,892
Office furniture & equipment	168,610	990	158,552
Office & storage building	506,490	9,092	515,582
Wells	1,530,340	28,955	1,559,295
Computer system	1,026,208	48,230	1,054,719
Pilot Knob Cottage	28,996	—	28,996
Booster station	143,746	—	143,746
Other assets	6,549	944	7,493
Operational asset total	40,154,899	1,000,450	41,082,004
Construction in progress	62,198	199,272	261,470
Total costs	\$ 40,217,097	\$ 1,199,722	\$ 41,343,474
Accumulated Depreciation			
	Balance	Additions	Disposals
	December 31, 2007		
			Balance December 31, 2008
Real estate & easements	\$ —	\$ —	\$ —
North Plant	2,015,257	220,135	2,235,392
South Plant	3,049,250	158,077	3,207,327
Distribution center	351,251	21,206	372,457
Distributions system	3,221,875	226,790	3,448,665
Softening equipment	554,549	21,761	576,310
Purification	1,179,595	278,540	1,458,135
Pumping	22,993	7,855	30,848
Trucks	192,051	11,059	160,974
Tools & equipment	458,273	20,594	478,867
Office furniture & equipment	163,973	1,287	154,247
Office & storage building	299,285	22,705	321,990
Wells	918,148	52,117	970,265
Computer system	778,542	92,477	851,301
Pilot Knob Cottage	26,744	517	27,261
Booster station	115,854	8,680	124,534
Total accumulated depreciation	\$ 13,347,640	\$ 1,143,800	\$ 14,418,573

15. Long-term debt

Long-term debt for Waterworks Board consists of the following:

	December 31, 2009	December 31, 2008
3.89% loan payable to Kansas Department of Health and Environment, payments due August 1 and February 1 of \$127,227, final payment due August 1, 2024, collateralized by all assets that are not used for current operations, must maintain a debt ratio of 140%	<u>\$ 2,871,111</u>	<u>\$ 4,058,132</u>

Maturities of long-term debt of Waterworks Board at December 31, 2009, are as follows:

Principal:	
2010	\$ 144,157
2011	149,819
2012	155,704
2013	161,820
2014	168,176
2015-2019	945,308
2020-2024	<u>1,146,127</u>
Total principal	<u>2,871,111</u>
Interest:	
2010	110,298
2011	104,636
2012	98,751
2013	92,635
2014	86,279
2015-2019	326,966
2020-2024	<u>126,147</u>
Total interest	<u>945,712</u>
Total principal and interest	<u>\$ 3,816,823</u>

16. Operating leases

The Waterworks Board, as lessee, entered into a noncancelable lease for office equipment during 2006, which is classified as an operating lease. Rent expense under this noncancelable lease was \$1,524 for the year ended December 31, 2009.

ADDITIONAL INFORMATION

WATERWORKS BOARD
SCHEDULE OF COSTS OF PRODUCTION
For the years ended December 31,

	<u>2009</u>	<u>2008</u>
<u>Pumping costs</u>		
Utilities	\$ 358,178	\$ 317,935
Repairs	165,671	125,172
Insurance	<u>54,096</u>	<u>53,764</u>
Total pumping costs	<u>577,945</u>	<u>496,871</u>
<u>Purification costs</u>		
Chemicals	205,721	161,622
Repairs to equipment	18,523	33,057
Water analysis	16,953	25,435
Other expense	<u>16,799</u>	<u>18,491</u>
Total purification costs	<u>257,996</u>	<u>238,605</u>
<u>Softening costs</u>		
Chemicals	227,977	227,824
Sludge removal - lagoons	10,000	65,000
Repairs to equipment	<u>12,619</u>	<u>2,980</u>
Total softening costs	<u>250,596</u>	<u>295,804</u>
<u>General plant costs</u>		
Operators salaries	746,202	749,171
Payroll expense	166,204	158,249
Repairs	114,739	50,936
Other	<u>33,522</u>	<u>22,804</u>
Total general plant costs	<u>1,060,667</u>	<u>981,160</u>
Material costs	<u>4,006</u>	<u>6,184</u>
Total costs of production	<u>\$ 2,151,210</u>	<u>\$ 2,018,624</u>

See Independent Auditors' Report

WATERWORKS BOARD
SCHEDULE OF DISTRIBUTION AND ADMINISTRATION EXPENSES
For the years ended December 31,

	<u>2009</u>	<u>2008</u>
<u>Distribution Expense before Depreciation</u>		
Salaries	\$ 469,095	\$ 454,881
Repairs-booster, mains, valves, lines, and meters	418,904	347,878
Payroll expense	110,414	104,287
Truck and heavy equipment expense	43,065	43,127
Insurance	30,634	30,466
Utilities	20,226	20,303
Building maintenance and supplies	12,058	15,745
Small tools and equipment expense	8,658	10,131
Uniforms	6,761	8,539
Training, dues and subscriptions	6,245	4,778
Miscellaneous	967	12,828
Terminated service	273	658
	<u>1,127,300</u>	<u>1,053,621</u>
Total distribution expense before depreciation	<u>\$ 1,127,300</u>	<u>\$ 1,053,621</u>
<u>Administration Expense before Depreciation</u>		
Salaries	\$ 420,922	\$ 432,030
Payroll expense	97,408	98,018
Office expense	76,926	74,137
Computer expense	49,224	44,615
Legal and professional services	15,879	13,258
Utilities - office	14,685	15,275
Insurance and fidelity bonds	12,641	12,380
Repairs	11,143	16,087
Training, dues and subscriptions	10,424	4,875
Miscellaneous	8,642	11,340
Traveling expense	57	994
	<u>717,951</u>	<u>723,009</u>
Total administration expense before depreciation	<u>\$ 717,951</u>	<u>\$ 723,009</u>

See Independent Auditors' Report

WATERWORKS BOARD
SCHEDULE OF INVESTMENTS

	Balance 12/31/07	Net Additions (Reductions)	Balance 12/31/08	Net Additions (Reductions)	Balance 12/31/09
Certificates of Deposit	\$ 9,325,000	\$ 417,195	\$ 9,742,195	\$ (2,231,741)	\$ 7,510,454
Kansas Municipal Investment Pool	1,952,387	(737,006)	1,215,381	1,394,754	2,610,135
Accrued interest	220,519	N/A	123,678	N/A	170,499
Total	<u>\$11,497,906</u>	<u>\$ (319,811)</u>	<u>\$ 11,081,254</u>	<u>\$ (836,987)</u>	<u>\$ 10,291,088</u>

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